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ABSTRACT

Issues concerning a state policy supporting cooperative ventures among colleges and universities in Pennsylvania are discussed. It is suggested that a state policy encouraging successful interinstitutional cooperation must: avoid threatening the institutions, recognize that they must be the actual bargaining entities, inspire their interest through neutral mechanisms, educate leadership on what is possible and how to proceed, be almost universally supportive of ideas that reach maturity, and provide help to ensure thorough planning and legal completion. Models of cooperation that are drawn mainly from the private sector are briefly described: ad hoc agreements; consortia; affiliations; management contracts; program transfers; federations; holding companies; interlocking directorates; consolidations; acquisitions; reincorporations and dissolutions; and combinations, sequences, and sequels. Elements necessary to make ventures work are identified, including vision, commitment, and support. An example of cooperation between Philadelphia College of Art and Philadelphia College of the Performing Arts is included. Finally, five recommendations are offered, including establishing a low-cost confidential information and assessment service, and not subsidizing financially distressed or underutilized institutions. (SW)

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# Governor's Commission on Higher Education Financing

Robert E. Kirby, Chairman

1984

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## Special Topics

HE 019 507

# MANAGEMENT GUIDANCE AND ADVISORY SERVICES:

# PROMOTING COOPERATIVE VENTURES

GOVERNOR'S COMMISSION ON THE
FINANCING OF HIGHER EDUCATION

Subcommittee on Special Topics
Gail S. Chambers, Research Consultant
Newark, New York
July, 1984

## SUMMARY

Purpose:

This paper presents concepts which need to be considered in order to determine whether or not Pennsylvania can increase efficiency in its varied higher education systems by promoting cooperative ventures among the institutions.

Topics Covered:

- Incentives Toward Cooperative Ventures
- What's Possible in Pennsylvania
- Some Models
- The Necessary Elements
- Case in Point: Two Arts Colleges in Philadelphia
- Recommendations

Conclusion:

History shows that lasting effective forms of inter-institutional cooperation occur rarely. Few institutions are able to bring together the necessary elements and understanding in a suitable environment. It is such an unfamiliar and even threatening process that a desirable range of inventions will not occur spontaneously. However, Pennsylvania offers an ideal setting for a low-keyed program promoting institutional initiatives and supporting them through management guidance and advisory services. It could be done now at little cost.

## INCENTIVES TOWARD COOPERATIVE VENTURES

Interinstitutional cooperation for the sake of efficiency is not a new idea, but a state policy effectively promoting it would be. This section explains why.

Institutional Incentives and Disincentives. When higher education institutions voluntarily consider cooperation, the inspiration may arise from managerial restlessness, from a need to stretch resources, or in the extreme from dire financial difficulties. In fact, college merger is so closely associated with this last circumstance that it has become a poisonous topic - one can't ask about it in public. This then, is the challenge: How do you get institutions to think about forming strong cooperative arrangements when, to them, such things smack of desperation?

Voluntary arrangements rub against habits of doing business as a single unit. Unless structural changes are made, they tend to fade over time. Wherever a cooperative idea is generated, arrangements are bargained in the interest of the two or more separate corporate entities. The public good is assumed to be served by resulting shared improvements. Usually only minimal forms of cooperation are possible, such as cross-registration agreements.

Major efforts succeed only under compulsion. What is needed is an idea good enough to stir leadership and project throughout the institution. Ideas strong enough to survive inertia and outright resistance still have to be worked out mechanically. Technical and legal assistance are necessary if situation-specific risks are to be avoided. Boards are cautious. Their constituencies are edgy. Major rearrangements which get past such barriers do so only if they have a great deal to offer to the institutions, and hence to the public trust.

State and Local Incentives. State agencies and local officials often have a different view of how cooperative ventures can serve the public. Periodically they look over their higher education maps and wonder if diversity might be better served by relating institutions to one another. Usually what comes to mind is some form of merger. In some instances they have asked:

- Can we provide our end of the state with coherent four-year programs by combining an institution from the upper-division system with one from our community college system?
- Can merger or some other arrangement control competitive off-campus programming in our city?
- Can we rationalize our historic systems and eliminate duplication?
- Can we help meet our state's fiscal crisis by merging two institutions right now?

. Can we improve state formula funding for the local lower division programs by merging them into a four-year college?

. Would mergers make it possible to collect on delinquent dormitory mortgages?

Note that the governmental initiatives of this sort seldom coincide with the concerns of the institutions which would have to carry them out.

## WHAT'S POSSIBLE IN PENNSYLVANIA

All these approaches have been considered in different states. What they have taught us is that, with rare and politically costly exception, the decision to cooperate rests with the institutions themselves - de jure for the private ones and de facto for the public ones. Hence an effective state policy encouraging successful forms of inter-institutional cooperation must:

Avoid threatening the institutions.

Recognize that they must be the actual bargaining entities.

Inspire their interest through neutral mechanisms.

Educate leadership on what is possible and how to proceed.

Be almost universally supportive of ideas which reach maturity.

Provide help to ensure thorough planning and legal completion.

No state has tried this sort of purposefully low-keyed informational approach. In part this is because good information has not been available until recently. With one eye on approaching enrollment declines, more institutions have experimented with cooperative rearrangement and a number of foundations have been studying their efforts. We now have some idea of what works and why.

Pennsylvania has a framework which could make it the ideal place to put this information to work. Already there is a broader range of institutional types here than elsewhere. The Pennsylvania Association of Colleges and Universities (PACU) has helped bring cross-sector thinking to institutional organizations and state agencies. Given the voluntary approach suggested here, such an organization might be willing to help present the program to its membership. Pennsylvania has a court system specifically designed to handle questions from the perspective of the public trust. A willingness to rethink politically sensitive funding relationships signals that the Commonwealth is ready to encourage creative change. It could be done now.

## SOME MODELS

Formal cooperative arrangements can be thought of as a continuum of increasingly complete legal combinations. Separate institutions may relate to one another through common governing bodies in state systems, or through consortial and other contractual arrangements. There are also a variety of changes institutions can make cooperatively to alter their corporate nature or direction. In the extreme, two institutions can merge into one, college merger being a range of agreements by which institutions contract to change the corporate control of one or both places. (Note 1)

The illustrations which follow are drawn mainly from the private sector where the suggested voluntary approach is the rule. The stories of the seminaries may seem esoteric, but they are especially helpful because inventive combinations have been commonplace there for decades.

Ad Hoc Agreements. Professionals in different institutions sometimes see ways to share resources. An agreement may simply be a traditional exchange or it may be worked out in contract form. It usually remains effective only as long as specific conditions and actors remain in place. Transfer "feeder" programs and joint faculty appointments are popular examples, whereas the case of a shared president is an unusual one.

Consortia. A consortium is a voluntary association of two or more institutions (public, private, mixed) formed to promote joint ventures of limited dimensions. Arrangements tend to be more enduring because a forum exists to renegotiate them even though needs and people change. Typical activities are cross-registration, library and media exchanges, shared student services, group purchasing, non-traditional and distance-learning systems and cooperative academic programs. It can take years to work out details for such plans, but their savings and benefits are substantial. (Note 2)

Even with these rewards, commitment is difficult to maintain. After a wave of "clustering" activities among the seminaries in the 1960's and '70's, their presidents now feel that the arrangements make indifferent contributions to their institutions as they stand today.

Affiliations. This is a broad term describing two related organizations, most commonly a private institution and its sponsoring church body. (Note 3) Between colleges, affiliation involves a public declaration of relationship by separately controlled entities. This is often accompanied by some shared administrative features. Coordinate colleges and some groups of public institutions might be said to be loosely affiliated. A classic example of close affiliation is the Andover Newton Theological Seminary between 1931 and 1965. Two boards, each with its own president, held separate charters, funds and degree-granting authority yet ran one program on one campus with one faculty and one student body.

Management Contracts. A management contract may be part of an affiliation. Many or all of the administrative tasks of one institution are handled by the other for a fee. The contracting college reduces its staff, often at considerable savings, and economics of scale make the fee profitable for the servicing institution as well. Each institution retains full autonomy over its programs and finances. Through renegotiations they can adjust operations on a periodic basis.

In periods of growth this device has been used to spin off new institutions where an expanded mission has suggested establishing a separate corporation and board. Today it might serve as a quick and inexpensive way to bring community college services to a region. As a mechanism for managing shrinkage, such contracts have been used to make small neighboring institutions more efficient. Geographic proximity, good will and a carefully negotiated contract are the key elements. There is no reason why neighboring institutions from different sectors couldn't make such arrangements, but for practical reasons it is unlikely to happen unless the contracting college is a private one. Few administrators voluntarily give up the right to hire and fire staff. Only the threat of closure has provided sufficient incentive.

Program Transfers. Sometimes an entire academic program is permanently moved from one institution to another. In New Hampshire a closing private institution, with the assistance of accrediting agencies and a local consortium, placed five programs into different institutions. The mechanism can also be used to redistribute programs within a public system, but only in the face of considerable resistance.

The major problem which emerges when transfers are undertaken for distributional or educational reasons, rather than as part of a bankruptcy, is to find ways to attach funding to the departing program. Donated assets and legacies present trust problems. Reassignment of public funds is politically costly.

Federations. Two or more institutions form a federation when they retain their corporate identities and separate boards but mutually surrender some of their management authority to a central administration. Usually the separate academic structures remain intact. (Note 4) Two private institutions in Maine used this device to combine operations one step at a time for real savings. Keeping separate corporate identities helped them avoid trust problems while it also reduced the risk that financial weakening of either program might bankrupt both.

The larger and more geographically disbursed a federation is, the harder it is to keep it rational and efficient. Long Island University is experimenting with the question of what autonomy should remain in each of its several units as it shifts from being a federation of institutions to being a single university with branch campuses. (Note 5) In public systems the transfer of administrative responsibilities to a central authority presents the same problem. Initially there may be savings but the tendency over time is to develop parallel structures locally at increased expense.

Holding Companies. When circumstances dictate that separate corporations be retained yet there is need for ultimate control to rest within one board, a holding company can be arranged. Three seminaries formed a holding company by moving all operations to the control of a seminary in New York while retaining a Pennsylvania corporation to hold assets in that state and creating a separate New York corporation to satisfy canon law requirements for an Episcopalian seminary moving in from Ohio. What distinguishes this and the following several examples is that control over the corporate entities is mutually and permanently changed, making this a form of merger. The previous examples either reassigned partial control or had termination arrangements. Once control shifts permanently, the result will be a new institution, whatever the design.

Interlocking Directorates. The same effect can be achieved by having a controlling number of individuals serving on one board also serve on another. When the New School of Social Research kept Parsons School of Design from closing, all members of the Parsons board resigned in turn to be replaced by trustees serving the New School. In Pennsylvania in the 1960's an interlocking foundation served as the "dotted line" organization under which a college of nursing, a seminary, a hospital and the Martin Luther King School were able to operate by sharing resources.

Consolidations. Under this legal form two institutions combine to become a third which is legal successor to all of the assets and obligations of its predecessors. This direct and even-handed approach usually comes to mind when boards voluntarily consider merger. If there is need to be selective about what passes to the new institution, however, or if one institution seeks to dominate the other, a different proposal will emerge from the negotiation process.

Acquisitions. In recent years most private sector negotiations have suggested that one institution dissolve while its assets and obligations pass selectively to the other. Unless such a merger is marked by unusual understanding and necessity, such a proposal generally is not acceptable. For states seeking to close a campus, however, the public sector analogue of this form allows a continued lower level of service to a region through branch or off-campus operations administered from the successor institution.

Reincorporations and Dissolutions. A private institution can dissolve and distribute its assets under court supervision or it can reincorporate to use those assets for other purposes consistent with the original trust. In Pennsylvania this process is supervised by the Orphan's Court. As the Wilson College case illustrates, great care is required to present a plan meeting all obligations.

Combinations, Sequences and Sequels. Frequently a first effort at cooperation builds experience which leads to another arrangement. One holding company found that its various boards functioned better when they also interlocked. It is not unusual to find different forms used in sequence as an arrangement matures. After 34 years of affiliation, Andover and Newton were able to fully consolidate without a ripple. There are even cases where the modern institution has evolved in chunks over the years under a board with a tradition of cooperative corporate change.

## THE NECESSARY ELEMENTS

Voluntary cooperation has been rare and impermanent among our thousands of public and private institutions. On the other hand, changes mandated by courts, legislatures or state administrations have produced years of frustration. What is necessary to make such ventures work? Here are some homilies recently gathered:

- Vision. Only an inspiration to greater service can outweigh the discomforts of change.

- Commitment. A strong idea needs strong advocates. When institutions talk of cooperation ask, Who wants it? Who will do the work? Can they pull it off?

- Balance. The threat of domination cripples most attempts at change. For institutions to fit together comfortably, they need to be roughly equivalent in reputation, have missions which are congenial or complementary, and be balanced in terms of available income, administrative service, and sources of support.

- Knowledge. Institutional leaders concentrate on single-institution problems. They are largely unaware of how combinations can work, so they avoid trying them.

- Invention. Each new attempt must lay out the requirements of its situation, then invent or adapt a legal format to meet those needs. If a plan is in the public interest, almost anything can be arranged.

- Care. The proposal has to be politically, financially and legally feasible. Postponed analysis usually leads to sad surprise.

- Support. Seed money is needed to pay for outside services in order to get started, unless these are provided in some other manner. Plans should ultimately include sources of long-term support. Developing internal enthusiasm may require expensive job guarantees or promises to offer prestigious new programs. If short-term funds can be found to launch the attempt, an expanded vision should be able to attract its own long-term support from public or private sources. The ability to do so signals a strong idea.

## CASE IN POINT: TWO ARTS COLLEGES IN PHILADELPHIA

This illustration shows how negotiations can succeed under difficult circumstances. Philadelphia College of Art (PCA) and Philadelphia College of the Performing Arts (PCPA) are financially modest, state-aided institutions occupying the same several blocks in the cultural district of Philadelphia. Both colleges emphasize the training of professional artists. PCA concentrates on the visual arts, PCPA on music, drama and the dance. Hence their missions are congenial and their programs highly complementary.

In 1982 PCPA found itself overburdened by debts. Its new president followed up on a long-standing mutual trustee vision that the two institutions could form a rare university of the arts. With this hope, the two administrations negotiated a management agreement to stabilize the situation, then raised substantial corporate and foundation support to underwrite efforts toward their goal.

Next came a period of discovery and assessment. It seemed clear from the board level down that a combination of some sort would bring Philadelphia exciting new possibilities in the arts. A joint venture would work academically and administratively, but the two institutions would face enormously complex financial and legal situations in order to bring it about. Private discussions with an outside consultant helped them reach agreement in principal that a program transfer would be the best basic form. Renegotiating the management agreement has bought them enough time to prepare agreements with a large number of parties. They are almost ready to put their plans into action.

With the support and assistance of state officials, PCA and PCPA now plan to transfer most of the performing arts programs into PCA or into a wholly held subsidiary of PCA. Transfer of needed facilities and equipment is being negotiated with various creditors, including Higher Education Facilities Authority (HEFA). Ultimately the entire plan will be taken into Orphan's Court with state officials attending for explanatory purposes. The remaining PCPA corporation will wrap up its affairs and dissolve.

What has gone right thus far? First of all, these schools have a truly laudatory goal, one that two boards, the various constituencies, the state, donors, accreditors, and even the creditors have been able to support. Also crucial were financial conditions that made creative change necessary in a state which avoids ad hoc public rescue. The schools were close, complementary and roughly equivalent. An able team of administrators, trustees, attorneys, and state advisors have been assembled to the task. A neutral third party was brought in to provide information and private consultation when negotiations reached a crucial point. The planners fit form to circumstance using management agreements, program transfers, holding company concepts and dissolution to shape a package which will meet all obligations. The schools have taken the conservative route so that ultimately they will launch a safe and healthy new institution. Finally, they have had no governmental barriers.

In summary, the environment for a working attempt in Pennsylvania today has included institutional initiative, inspiration, necessity, balance, commitment, resources, private outside assistance, plenty of information, freedom to invent, care and a supportive state response. If inventions of this sort are considered desirable, the Commission should ask how these elements can be similarly gathered to nurture other attempts in the future.

## RECOMMENDATIONS AND CONCLUSIONS

Recommendation 1. Establish a low-cost confidential information and assessment service. It could be coordinated with other state services but should not be directly identified with sources of state approval. If possible, introduce the service through workshops on cooperative ventures sponsored by professional organizations such as PACU.

Recommendation 2. Consider a program of matching grants to subsidize legal costs for attempts which promise substantial cooperative rearrangement.

Recommendation 3. Avoid subsidizing financially distressed or underutilized institutions. Instead, make special state response available only for circumstances where temporary assistance is needed to bring about permanent change.

Recommendation 4. Maintain the state's current supportive stance and ability to speed approvals.

Recommendation 5. Keep the initiative at the institutional level, with enough flexibility in the overall system to allow neighboring institutions, regardless of sector, to invent solutions together. When a problem arises, make regional discussion a prerequisite to state interest.

History shows that lasting effective forms of inter-institutional cooperation occur rarely. Few institutions are able to bring together the necessary elements and understanding in a suitable environment. This is such an unfamiliar and even threatening process that a desirable range of inventions will not occur spontaneously. Pennsylvania offers an ideal setting for a low-keyed program prompting institutional initiatives and supporting them through management guidance and advisory services. It could be done now at little cost.

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A bibliography of case examples and analysis is available from the author upon request. Much of this discussion is based on confidential file material.

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